

STATE OF NEW MEXICO.
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO.
15320

APPLICATION OF MATADOR PRODUCTION COMPANY
FOR APPROVAL OF A NON-STANDARD OIL SPACING
AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 11, 2015

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, June 11, 2015, at the New Mexico Energy,
Minerals, and Natural Resources Department, Wendell
Chino Building, 1220 South St. Francis Drive, Porter
Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: ELLEN H. ALLANIC
NEW MEXICO CCR 100
CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
Suite 105
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

FOR APPLICANT MATADOR PRODUCTION COMPANY:

JAMES G. BRUCE, ESQ.
P.O. Box 1056
Santa Fe, New Mexico 87504
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I N D E X

CASE NUMBERS 15320 CALLED

MATADOR PRODUCTION COMPANY
CASE-IN-CHIEF

WITNESS CHRIS CARLETON

	Direct	Redirect	Further
By Mr. Bruce	4		
	Examination		
By Examiner Goetze	11		

WITNESS JERON WILLIAMSON

	Direct	Redirect	Further
By Mr. Bruce	12		
	EXAMINATION		
Examiner Goetze	17		

Reporter's Certificate Page 19

E X H I B I T I N D E X	
Exhibits Offered and Admitted	
	PAGE
1	
2	
3	MATADOR PRODUCTION COMPANY EXHIBIT 1 11
4	MATADOR PRODUCTION COMPANY EXHIBIT 2 11
5	MATADOR PRODUCTION COMPANY EXHIBIT 3 11
6	MATADOR PRODUCTION COMPANY EXHIBIT 4 11
7	MATADOR PRODUCTION COMPANY EXHIBIT 5 11
8	MATADOR PRODUCTION COMPANY EXHIBIT 6 11
9	MATADOR PRODUCTION COMPANY EXHIBIT 7 11
10	MATADOR PRODUCTION COMPANY EXHIBIT 8 16
11	MATADOR PRODUCTION COMPANY EXHIBIT 9 16
12	MATADOR PRODUCTION COMPANY EXHIBIT 10 16
13	MATADOR PRODUCTION COMPANY EXHIBIT 11 16
14	
15	Matador Production Company Exhibit 12 To be sent via e-mail See Page 16, Line 23
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17	
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1 (Time noted 10:45 a.m.)

2 EXAMINER GOETZE: We have case 15320,
3 Application of Matador Production Company For Approval
4 of a Non-Standard Oil Spacing and Proration Unit and
5 Compulsory Pooling, Lea County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa
8 Fe representing the applicant. We have two witnesses.

9 EXAMINER GOETZE: Will the witnesses stand,
10 identify themselves, to the reporter and be sworn in.

11 (Whereupon, the presenting witnesses were
12 administered the oath.)

13 EXAMINER GOETZE: I assume there are no
14 other appearances in this case.

15 (No response.)

16 CHRIS CARLETON
17 having been first duly sworn, was examined and testified
18 as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Will you please state your name and city of
22 residence for the record.

23 A. Chris Carlson, Plano, Texas.

24 Q. Who do you work for and in what capacity?

25 A. I work for MRC Energy Company, as a landman.

1 Q. And what is the relationship between MRC Energy
2 and Matador Production Company?

3 A. Matador Production Company is an affiliate, the
4 operating arm of MRC Energy Company.

5 Q. Have you previously testified before the
6 Division?

7 A. Yes. As a factual witness.

8 Q. Please summarize your educational and employment
9 background for the Examiner.

10 A. Yes. I graduated from Texas Tech University as
11 an energy commerce major and served as a land intern
12 during the summer of 2013 and the winter of 2013 for
13 Matador Resources Company and became a full-time landman
14 for Matador Resources Company June 23rd, 2014.

15 Been a member of AAPL and DAPL and YP petroleum
16 landman associations since September 2014.

17 Q. Does your area of responsibility at Matador
18 include this area of southeast New Mexico?

19 A. Yes.

20 Q. And, Mr. Carleton, I may use Matador and MRC
21 interchangeably.

22 A. Okay.

23 Q. And are you familiar with the land matters in the
24 application filed by Matador in this case?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, I tender
2 Mr. Carleton as an expert petroleum landman.

3 EXAMINER GOETZE: He is so qualified.

4 Q. Could you identify Exhibit 1, Mr. Carleton, and
5 discuss its contents for the Examiner?

6 A. It is a form C-102 for the well, the Hibiscus,
7 08-19S-35E RN, well number 124H, horizontal well, with a
8 surface location 200 feet from the south line and
9 252 feet from the east line of section 5.

10 The cursing lateral will be unorthodox with a
11 penetration point 330 feet from the north line and 350
12 from the east line of section 8.

13 And the last perforation point, 330 feet from the
14 south line and 350 from the east line of section 8.

15 Matador wishes to form an oil spacing and
16 proration unit comprised of the east half, east half of
17 section 8, 19 south, 35 east, Lea County, New Mexico, in
18 order to drill a horizontal well identified in
19 Exhibit 1.

20 Q. And this well will test the Bone Spring
21 formation?

22 A. Yes.

23 Q. And what pool is it in?

24 A. The Scharb Bone Spring Pool.

25 Q. And what is the well spacing in the Scharb Bone

1 Spring?

2 A. 40 acres for a vertical and then 160 for the --

3 Q. That's what you're seeing in here?

4 A. Yes.

5 Q. But are there special pool rules in the Scharb
6 Bone Spring regarding the location of wells?

7 A. Yes. Instead of a 330, I believe it is 460 of
8 the section lines.

9 Q. And has Matador obtained administrative approval
10 for an unorthodox location?

11 A. Yes. And that is shown in Exhibit 7.

12 Q. Turn to Exhibit 2. What is the working interest
13 ownership in the well unit and who do you seek to pool?

14 A. MRC Permian has 75 percent of the well and fee
15 leases and one state lease. And Chevron has 25 percent
16 and one state lease. We seek to pool Chevron's
17 25 percent.

18 Q. And what is Exhibit 3?

19 A. Exhibit 3 is copy of our well proposal letter to
20 Chevron, a plat of the well location, and an AFE.
21 Chevron has not elected to join the well.

22 Q. You've had quite a few contacts or attempted
23 contacts with Chevron; is that correct?

24 A. That is correct.

25 Q. And is that reflected in the summary set forth as

1 Exhibit 4?

2 A. That's correct.

3 Q. Very briefly, without noting everyone, could you
4 just give a little rundown on your attempts to deal with
5 Chevron.

6 A. Yes. We have been negotiating in good faith with
7 Chevron since December of 2014 to reach a voluntary
8 joinder and in January 2015 started negotiating to farm
9 in Chevron's interest as Chevron indicated they would
10 not be participating.

11 Q. Have they evidenced interest in joining in an JOA
12 at all?

13 A. No.

14 Q. In your opinion has MRC or Matador made a good
15 faith effort to obtain the voluntary joinder of Chevron
16 in the well unit?

17 A. Yes.

18 Q. If you would refer back to your Exhibit 3, that
19 contains an AFE, does it not?

20 A. Correct.

21 Q. And what is the cost of the proposed well?

22 A. Estimated drive hole cost of \$3,850,837 and
23 completed well cost of \$8,570,292.

24 Q. And are these costs in line with the cost of
25 other horizontal wells drilled at this depth in this

1 area of New Mexico?

2 A. Yes.

3 Q. And who do you request be appointed operator for
4 the well?

5 A. Matador Production Company.

6 Q. And do you have a recommendation for the amount
7 which Matador should be paid for supervision and
8 administrative expenses?

9 A. We request \$7,000 per month be allowed for a
10 drilling well and \$700 per month be allowed for a
11 producing well.

12 Q. And are those amounts equivalent to those
13 normally charged by Matador and other operators in this
14 area for wells of this type?

15 A. Yes.

16 Q. Do you request that the rates are periodically
17 adjusted as provided by the Copas accounting procedure?

18 A. Yes.

19 Q. And does Matador request a cost plus 200 percent
20 risk charge if Chevron non-consents the well?

21 A. Yes.

22 Q. And were the parties being pooled notified of
23 this hearing?

24 A. Yes. And Exhibit 6 is an affidavit of notice.

25 MR. BRUCE: Mr. Examiner, just to be clear,

1 there are two affidavits of notice under Exhibit 6.

2 EXAMINER GOETZE: That's fine. This has
3 been a good presentation with regards to historical
4 presentations.

5 MR. BRUCE: The first one -- and I wouldn't
6 dare ask you to note them as A and B --

7 EXAMINER GOETZE: Let's go ahead and do
8 that.

9 MR. BRUCE: The first one is the notice to
10 offset operators. And the second one, several pages
11 behind that, is the notice to Chevron. And, actually, I
12 am amazed I got their agreement right back.

13 Q. And, Mr. Carleton, does the notice letter to the
14 offsets, Exhibit 6A, if you will, does that accurately
15 reflect the Exhibit A, all of the offset operators or
16 working interest owners to your proposed well?

17 A. Yes.

18 MR. BRUCE: And, again, Exhibit 7 is just
19 the administrative NSL for the unorthodox location for
20 the proposed well.

21 Q. Were Exhibits 1 through 7 prepared by you or
22 under your supervision or compiled from company business
23 records?

24 A. Yes.

25 Q. And in your opinion is the granting of this

1 application in the interests of conservation and the
2 prevention of waste?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I move the
5 admission of Matador Exhibits 1 through 7.

6 EXAMINER GOETZE: Exhibits 1 through 7 are
7 so entered.

8 (MATADOR PRODUCTION COMPANY EXHIBITS 1
9 through 7 were offered and admitted.)

10 MR. BRUCE: I have no further questions of
11 the witness.

12 EXAMINER WADE: I do not have any questions.

13 EXAMINER GOETZE: Counsel does not have any
14 questions. And I will just ask a point of
15 clarification.

16 EXAMINATION BY EXAMINER GOETZE

17 EXAMINER GOETZE: So we are just dealing
18 with Chevron, is the only entity we are looking to pool
19 at this time?

20 THE WITNESS: Correct.

21 EXAMINER GOETZE: And we don't have any
22 unlocatables or any concerns?

23 THE WITNESS: No.

24 EXAMINER GOETZE: Other than that, I have no
25 questions for this witness. Proceed.

1 JERON WILLIAMSON

2 having been first duly sworn, was examined and testified
3 as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Please state your name for the record:

7 A. My name is Jeron Williamson.

8 Q. And where do you reside?

9 A. In Dallas, Texas.

10 Q. Who do you work for and in what capacity?

11 A. I am employed by MRC Energy Company, an employee
12 of Matador Production Company as a senior staff
13 reservoir engineer.

14 Q. Have you previously testified before the
15 Division?

16 A. I have.

17 Q. And were your credentials as an expert petroleum
18 engineer accepted as a matter of record?

19 A. Yes.

20 Q. And does your area of responsibility at Matador
21 or MRC include this portion of southeast New Mexico?

22 A. It does.

23 Q. Are you familiar with the technical matters
24 related to this application?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, I tender the
2 witness as an expert petroleum engineer.

3 EXAMINER GOETZE: He is so qualified.

4 Q. Mr. Williamson, could you identify Exhibit 8 for
5 the examiner?

6 A. Exhibit 8 is a structure map of the top of the
7 Second Bone Spring in the Scharb Bone Spring Pool area.

8 You will notice on the map we've got our Matador
9 acreage colored in yellow. The blue bottom hole,
10 surface hole locations are noted there in the center of
11 the map at the Hibiscus State No. 124H.

12 The contour interval is 50 feet here so the
13 structure is dipping to the southwest. Also shown on
14 the map are existing producing horizontal wells.

15 The First Bone Spring wells are depicted in
16 green. The Second Bone Spring wells, in orange. And
17 the Third Bone Spring wells are shown in red.

18 Q. What is the primary target of your proposed well?

19 A. We are targeting the Second Bone Spring.

20 Q. Could you move on to Exhibit 9 and discuss that
21 for the Examiner.

22 A. Exhibit 9 is a structural cross section, from A
23 to A Prime. So there's three wells in the cross
24 section. The first well is a Dallas Production, Inc.,
25 Smith 5 No. 1 well, in section 5, just to the

1 north of this 160-acre block that we are intending to
2 drill.

3 Also in the cross section depicted as No. 2 is
4 the Dallas Production, Inc., Scharb 8 No. 1 well. And,
5 then, finally, the number 3 well there is Elk Oil
6 Company Snyder Ranch No. 1 well.

7 So this cross section shows that the Second Bone
8 Spring Sand is continuous across the area in excess of
9 350 feet in thickness. And you will notice in the third
10 tract on the log there, the porosity is in the range of
11 about 8 to 12 percent.

12 And our intention for the Hibiscus State 124H is
13 to land in the Second Bone Spring there, toward the
14 lower half of the Second Bone Spring, with a target
15 interval of about 40, 50 feet.

16 Q. You do consider these logs to be representative
17 of the Second Bone Spring formation in this area?

18 A. Yes, I do.

19 Q. And have you identified any geologic impediments
20 or faulting or anything that would prevent the
21 successful drilling of your proposed horizontal well?

22 A. There doesn't appear to be, no.

23 Q. Could you turn to Exhibit 10 and identify that
24 for the Examiner.

25 A. Exhibit 10 is an isopach of the Second Bone

1 Spring, showing that the formation is continuous,
2 actually thickening a little bit as we drill toward TD.

3 Q. Do you expect horizontal drilling -- and the
4 Second Bone Spring formation being continuous across
5 this area, would you expect each quarter, quarter
6 section to contribute to production?

7 A. I do, yes.

8 Q. And do you believe that horizontal drilling would
9 be the most efficient method to develop this acreage?

10 A. Yes, I do.

11 Q. Could you move on to Exhibit 11.

12 A. Exhibit 11 is a construction diagram that shows
13 our surface hole location for the subject well to be
14 200 feet from south line, 352 from east line of section
15 5, just to the north of section 8. The well will be
16 drilled south from there into section 8 with the first
17 perforation no closer than 330 feet from the north line
18 of section 8 and the last perforation no closer than
19 330 feet from the south line of section 8.

20 Q. And that would comply with the terms of the NSL
21 that was marked Exhibit 7, the non-standard location
22 order, correct?

23 A. That is correct.

24 Q. How many completion stages does Matador do in
25 these wells?

1 A. This well will be fracked in 18 stages.

2 Q. In your opinion, will the granting of Matador's
3 application be in the interests of conservation and the
4 prevention of waste and the protection of correlative
5 rights?

6 A. Yes, sir.

7 Q. And were Exhibits 8 through 11 prepared by you or
8 under your supervision?

9 A. Yes, sir.

10 MR. BRUCE: Mr. Examiner, I move the
11 admission of Exhibits 8 through 11.

12 EXAMINER GOETZE: And have we done 1
13 through.--

14 MR. BRUCE: Yes.

15 EXAMINER GOETZE: Let's do Exhibits 8
16 through -- is it 12?

17 MR. BRUCE: I am seeking to move Exhibits 8
18 through 11.

19 EXAMINER GOETZE: Okay. Let's do that, 8
20 through 11.

21 (MATADOR PRODUCTION COMPANY EXHIBITS 8
22 through 11 were offered and admitted.)

23 MR. BRUCE: Mr. Examiner, Exhibit 12 is
24 simply a proposed order which I will e-mail you an
25 electronic copy. Fortunately, my co-counsel in this

1. matter is a lot more efficient than me, which is the
2. reason we have a proposed order. But with that, I have
3. no further questions of this witness.

4. EXAMINER GOETZE: Very good. Counsel, any
5. questions?

6. EXAMINER WADE: No questions.

7. EXAMINATION BY EXAMINER GOETZE

8. EXAMINER GOETZE: First of all, we got a
9. cross section here with no location of that cross
10. section. I request that you include the location line
11. for the cross section.

12. THE WITNESS: It is tough to see there. It
13. is on the map there at the bottom. So the project area
14. is in red.

15. EXAMINER GOETZE: Okay, way down there.

16. THE WITNESS: It is microscopic, but we'll
17. do better.

18. EXAMINER GOETZE: Okay. I appreciate it.

19. With this well are there any
20. considerations of testing First or Third -- not Third,
21. but testing First Bone Spring.

22. THE WITNESS: At some point, we may come
23. back and do that. This is our first well in this area.
24. We're kind of stepping out.

25. There is really not -- to speak of, there is

1 not any Second Bone Spring horizontal wells to the east,
2 so we are kind of stepping out and testing the waters in
3 the Second Bone Spring Sand.

4 But, yes, to your point, in the future I
5 think we would entertain options in the First and
6 possibly the Third Sand.

7 EXAMINER GOETZE: Okay. Seeing how I can't
8 read the bottom of the cross section, I am going to stop
9 there. Thank you very much for your information. I
10 have no further questions of this witness.

11 MR. BRUCE: I have nothing further,
12 Mr. Examiner.

13 EXAMINER GOETZE: On that note, we will take
14 case 15320 under advisement.

15

16 (Time noted 11:03 a.m.)

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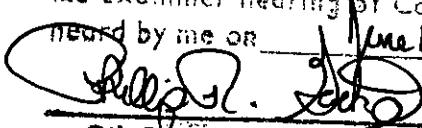
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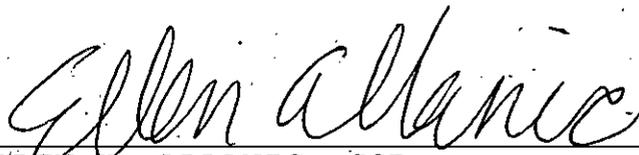
I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15320
heard by me on June 11 2015

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF BERNALILLO)

7 REPORTER'S CERTIFICATE

8
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
10 No. 100, DO HEREBY CERTIFY that on Thursday, June 11,
11 2015, the proceedings in the above-captioned matter were
12 taken before me, that I did report in stenographic
13 shorthand the proceedings set forth herein, and the
14 foregoing pages are a true and correct transcription to
15 the best of my ability and control.

16
17 I FURTHER CERTIFY that I am neither employed by
18 nor related to nor contracted with (unless excepted by
19 the rules) any of the parties or attorneys in this case,
20 and that I have no interest whatsoever in the final
21 disposition of this case in any court.

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23
24
25


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NM Certified Court Reporter No. 100
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